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The Manufacturers Hanover
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Weekly Commentary, Selected Financial Data, and Business Indicators

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For The Labor Market . . .

One of the more distressing symptoms of the current economic downturn is the sharp deterioration of labor market conditions. Whereas the unemployment rate stood at a seasonally adjusted 7.2 per cent of the labor force last July, by yearend it had spiked upward to 8.8 per cent—just a shade below the postwar peak of nine per cent recorded in 1975. What is more, labor market conditions continued to weaken in January, reflecting declines in both total employment and the average workweek as well as a further rise in the actual number of unemployed, unadjusted for seasonal changes.

In January, total employment dropped slightly month-over-month, and now stands at a seasonally adjusted 99.6 million workers. At the same time, however, the number of unemployed persons fell by a seasonally adjusted 273,000 during the month, largely the statistical by-product of adjusting for a smaller than usual rise in joblessness between December and January. This, in turn, reflected an almost equal sized decline in the civilian labor force—and a dip in the seasonally adjusted unemployment rate from 8.8 per cent in December to 8.5 per cent in January. Unfortunately, a look beneath the surface of this apparent improvement suggests the labor market is now in the eye, rather than at the end, of the storm.

The less than seasonal rise in the number of unemployed in January is, in itself, troublesome. Rather than being indicative of a firming of labor market conditions, it seems directly related to the opposite. The onset of severe winter weather conditions in many areas of the country undoubtedly discouraged many workers from actively seeking employment and, as a result, it is hardly coincidental that the number of people attempting to obtain jobs declined by more than 300,000. This development, in turn, produced a temporary contraction of the labor force—as well as the total number of unemployed. To be counted as unemployed, one has to be looking for work; if the number of persons actively seeking jobs had not contracted last month but had held steady, the unemployment rate would have remained at 8.8 per cent.

. . . The Calm Before The Storm

Nor was the artificial contraction of the labor force the only factor producing a lower-than-anticipated jobless total. It may also be attributable to a smaller than seasonal rise in employment the month before. For only the fourth time in the past 15 years, total employment (calculated on a seasonally adjusted basis) declined between November and December. What this suggests is that employers, faced with lackluster final sales and deteriorating economic conditions economy-wide, were extremely reluctant to add to their payrolls in December. As a result, with the number of temporary hires during the normally robust December holiday season well below normal, the number of dismissals in the weeks immediately following the holidays also did not reach seasonal expectations.

But perhaps more ominous with respect to future jobless rates were both the fourth consecutive monthly decline in total nonfarm employment and a steep plunge in the average workweek. Total nonfarm employment declined by a seasonally adjusted 237,000 persons in January to 90.9 million. This total has fallen nonstop since September and now stands about 1.5 per cent below its September peak. Job losses were distributed among a wide variety of industries, with the largest month-over-month declines occurring in the manufacturing (215,000) and construction (140,000) industries. As could be expected, while many of the job losses in manufac-

REAL INTEREST RATE DIFFERENTIALS

Country	3-month Eurocurrency Rate (as of 2/8/82)	—	Percent Change in CPI (Dec 81/Dec 80)	=	Real Interest Rate
United States	15.9		8.9		7.0
United Kingdom	14.6		12.1		2.5
France	15.8		14.0		1.8
Japan	6.6		5.0		1.6
Switzerland	8.4		6.6		1.8
West Germany	10.3		6.2		4.1
Canada	15.4		12.2		3.2

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turing were concentrated in the automobile and capital goods industries, they also included significant downturns in the textile and apparel industries. What is more, the outlook is even bleaker, for with industrial production and capacity utilization continuing to skid and numerous plant closings expected this month, this trend will not be reversed any time soon.

One leading indicator of future joblessness, the average workweek also continued to decline last month. The average workweek in all manufacturing industries dropped by a record 5.4 per cent month-over-month to 36.9 hours, one of the lowest levels ever. Since employers usually trim hours before payrolls, this development, although weather-related to some extent, can only presage a significant rise in the layoff rate in coming months. As if to confirm this grim outlook, initial claims for unemployment insurance rose to 591,000 workers during the week ending January 30, up almost 30 per cent compared with levels prevailing just two weeks earlier.

High Real Interest Rates . . .

Continuing high interest rates in the United States are widely recognized as the principal cause for the continued strength of the dollar against the currencies of its major trading partners. Other factors add to the dollar's strength, as well, such as falling inflation rates, a surplus in the current account and political stability. Underlying these favorable factors for the dollar has been less demand for

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/3/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	138.222	+ 2.976	+12.746
Loans to Depository Inst.	1.847	– .624	+ .646
Float	2.729	– .815	– .318
Total Reserve Bank Credit	152.863	+ 1.800	+13.231
Treasury Deposits with Federal Reserve Banks	7.863	+ 1.716	+ 4.575
Currency Outside Banks	123.677	– .021	+ 6.305
Member Bank Reserves:			
Required	42.332	– .371	+ 2.111
Excess (Deficiency)	.406	+ .290	+ .178
Total Reserves Held	42.738	– .081	+ 2.289
Net Borrowed Reserves	1.331	– .928	+ .483
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	92.265	– 3.268	– .816

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (1/27/82)	447.6	+ 14.3‡	+ 6.9‡
M2 (December '81)	1,821.8	+ 9.8	+ 10.0
M3 (December '81)	2,187.5	+ 9.3	+ 11.4
L (September '81)	2,577.3	+ 11.3	+ 11.6

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 2/11/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	13.30%	13.75%	13.20%
* Federal Agencies	14.05	14.65	14.85
* Project Notes—Taxfree (46% Taxable Equivalent)	13.52	14.81	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	15.65	15.75	16.38

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	15.13%	Mar.	15.00%
15- 29 days	15.13	Apr.	14.90
30- 59 days	15.00	May	14.85
60- 89 days	14.50	Jun.	14.75
90-179 days	14.00	Jul.	14.60
180-239 days	14.00	Aug.	14.25
240-270 days	14.00		

‡Industrial Paper—Prime			
30- 89 days	15.13%	†Federal Funds Effective Rate	15.90%
90-120 days	15.10		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'81	$ 2,985	$ 2,965	$ 2,731
Gross National Product (1972 Dollars)*	4th Q'81	$ 1,496	$ 1,516	$ 1,486
Percent Change, Annual Rate	4th Q'81	– 5.2	1.4	3.8
Change in Consumer Prices (all urban consumers)*	Dec '81	4.8%	6.0%	12.0%
Change in Producer Prices*	Dec '81	3.6%	6.0%	4.8%
Civilian Employment (Thousands of Persons)†	Jan '82	99,581	99,613	99,901
Unemployment as % of Civilian Labor Force†	Jan '82	8.5%	8.8%	7.4%
Personal Income	Dec '81	$ 2,492	$ 2,488	$ 2,277
Leading Indicators Composite Index (1967=100)†	Dec '81	129.4	128.6	136.4
Industrial Production Index (1967=100) †	Dec '81	143.3	146.4	150.4
Net Change in Consumer Installment Credit†	Dec '81n	–$ 0.17	$ 0.34	$ 1.62
U.S. Merchandise Trade Balance †	Dec '81	–$ 0.70	–$ 3.40	–$ 2.19
Plant and Equipment Expenditures*	1st Q'82	$345.46(a)	$332.69(a)	$312.24
Private Housing Starts (Thousands of Units)*	Dec '81	978	863	1,535
New Construction Expenditures*	Dec '81	$ 229.3	$ 231.6	$ 245.4
Total Business Inventories†	Nov '81	$ 515.2	$ 511.7	$ 474.9
Total Business Sales†	Nov '81	$ 344.6	$ 345.3	$ 339.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

imports, particularly petroleum, which has reduced somewhat the outflow of dollars. Although the merchandise trade account (on the balance of payments basis) showed a slightly higher deficit ($27.8 billion) in 1981 than in 1980 ($25.3 billion) the percentage increase of 9.9 per cent was close to the 1981 inflation rate of 9.1 per cent (GNP deflator) indicating very little deterioration in the trade account in real terms.

The prospects for economic recovery in 1982 would appear at first glance to portend a growing weakness in the dollar. Most forecasters expect a decline in U.S. interest rates this year. Further, as economic activity increases, imports are expected to rise as well, leading to an increased outflow of dollars and a rising trade deficit. This, in turn, is expected to lead to a diminished current account surplus--or possibly a small deficit.

Yet such a scenario is by no means certain. U.S. interest rates in real terms still enjoy a substantial premium over those in other countries (see table on page 1). As interest rates rose in the United States over the past 18 months, other nations raised theirs as well in order to reduce the impact of the interest rate differential on their currencies' exchange rates against the dollar at the cost, in most cases, of skyrocketing unemployment and recession. As interest rates in the U.S. have declined foreign interest rates have fallen as well. It is likely that interest rates in Europe in particular will continue to

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (1/27/82)	135,462	+ 2,808	+19,462
New York City (1/27/82)	34,246	+ 1,576	+ 4,651
Commercial Paper (1/27/82)	167,014	+ 985	+37,519

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/27/82)	195,679	+ 828	+23,877
New York City (1/27/82)	55,359	- 109	+ 4,745

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/27/82)	466,223	- 199	+39,737
New York City (1/27/82)	108,647	- 172	+ 9,125

Financial Markets

	Thursday 2/11/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	14.83%	+ .45	- 1.49
180-Day Bills†	15.25	+ .47	- .90
Longest Bills†	15.25	+ .52	+ .24
Recent Issues:			
15s 1/31/84	15.02	+ .05	
14 1/8s 12/31/85	14.94	+ .18	
14 5/8s 2/15/92 (When Issued)	14.97	+ .27	
14s 11/15/11	14.60	+ .01	
Municipals:			
Bond Buyer--20 Bond Index*	13.09%	- .04	+ 3.10
Blue List Total ($ Million)	$ 773	- $ 74	+ $ 72
30-Day Visible Supply ($ Million)	$1,312	- $258	- $ 934
Total	$2,085	- $332	- $ 862
Corporates:			
Moody's Aa Composite (2/10/82)	15.82%	+ .02	+ 2.04
30-Day Visible Supply ($ Million)	$9,702	+ $310	+ $5,614
Stocks:			
Dow-Jones Averages:			
Industrials	834.67	- 16.36	- 96.90
Transportation	348.91	- 8.26	- 40.46
Utilities	105.16	- 1.79	- 2.95
65 Stocks	328.32	- 6.71	- 32.72
Standard and Poor's 500 Stocks	114.43	- 2.83	- 12.55
N.Y.S.E. Composite Index	66.11	- 1.68	- 6.69
N.Y.S.E. Avg. Daily Vol. for Week (000's)	49,178	- 690	+ 12,104

* 46% Taxable equivalent 24.24%.

† Bond equivalent.

International Rates

	Thursday 2/11/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	16.00%	15.38%
1 month	16.13	15.50
3 month	16.31	15.63
6 month	16.31	15.75
1 year	16.19	15.75
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	15.10%	14.99%
Long Term (7 to 15 yrs.)	15.30	15.20

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/11/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02486	40.23
Canada	.8251	1.2120
Denmark	.1293	7.7360
France	.1669	5.9925
Germany	.4235	2.3610
Italy	.0007923	1262.10
Japan	.004242	235.73
Mexico	.03733	26.785
Netherlands	.3860	2.5905
Switzerland	.6279	1.8943
U.K.	1.8520	.5400

decline; unemployment has become a political and social issue in many cases. Inflation, too, is easing in most countries but particularly rapidly in the United States. Finally, although most of the world's developed nations expect to show some real economic growth in 1982 it will be sluggish and sporadic in most instances. World trade will do well to grow by two per cent in volume terms this year. Hence, none of the major economic causes for a fundamental shift in exchange rate relationships appears to be in place.

. . . Will Keep The Dollar Strong

Although the real interest rates shown in the accompanying table are indicative of the current situation and are a typical example of the advantage which the U.S. has enjoyed in the last 18 months, they are also retrospective. The investor is concerned with the future. Since the beginning of this year U.S. interest rates have begun to edge upward again. In the same period the three-month Eurocurrency rates for all of the other countries shown on the table, except Canada, have fallen, suggesting the probability that monetary policies in those countries are easing. In the United States monetary policy is expected to remain tight. With prospects for the decline in the inflation rate in the U.S. to continue throughout the year, continued external demand for dollar-denominated assets appears to be good.

Toward the end of 1982 some improvement in the global economic environment may be expected to improve the export prospects of the major European nations and Japan which, combined with declining U.S. interest rates toward yearend, could result in a modest weakening of the dollar. For now, however, real interest rate differentials will continue to be the primary arbiter of the dollar's fate. H

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